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No.

IN THE

# Supreme Court of the United States

OCTOBER TERM, 1994

NTN COMMUNICATIONS, INC.,

*Petitioner,*

*vs.*

INTERACTIVE NETWORK, INC.,

*Respondent.*

PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

## PETITION FOR WRIT OF CERTIORARI

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## QUESTION PRESENTED

Whether it is constitutionally permissible, pursuant to *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), for state law estoppel doctrines to bar a licensee's renewed validity challenge to the licensed patent, where the estoppel is based on the licensee having dismissed its prior validity challenge without prejudice.

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No. _____

In The
SUPREME COURT OF THE UNITED STATES
October Term, 1994

NTN COMMUNICATIONS, INC.,
*Petitioner,*
*vs.*
INTERACTIVE NETWORK, INC.,
*Respondent.*

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## PETITION FOR WRIT OF CERTIORARI

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Petitioner NTN Communications, Inc. ("NTN")[1] respectfully prays that a writ of certiorari issue to review the decision of the United States Court of Appeals for the Federal Circuit in this matter.

## OPINIONS BELOW

The decision of the Court of Appeals for the Federal Circuit in 94-1211 was entered on November 17, 1994, and is included in the appendix hereto at C1-C4. The relevant opinion of the United States District Court for the Northern District of California in C92-2211-DLJ was filed on July 7, 1993, and is included in the appendix at A1-A12.

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[1] Pursuant to Rule 29 of this Court, NTN states that it has no parent company or subsidiaries (other than wholly-owned subsidiaries).

## JURISDICTION

The Federal Circuit issued its decision on November 17, 1994. A timely petition for rehearing and suggestion for rehearing en banc was denied on December 28, 1994. This Court has jurisdiction pursuant to 28 U.S.C. § 1254(1).

## CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

1. U.S. Constitution, article I, section 8, clause 8.

2. Part II, section 101 of the Patent Law, 35 U.S.C. § 101, which provides:

> Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

3. Part II, section 102 of the Patent Law, 35 U.S.C. § 102, which provides in relevant part:

> A person shall be entitled to a patent unless —
>
> . . . .
>
> (f) he did not himself invent the subject matter sought to be patented, . . . .

4. Part III, section 282 of the Patent Law, 35 U.S.C. § 282, which provides in relevant part:

> The following shall be defenses in any action involving the validity or

> infringement of a patent and shall be pleaded:
>
> . . . .
>
> (2) Invalidity of the patent or any claim in suit on any ground specified in part II of this title as a condition of patentability, . . . .

## STATEMENT

The constitutional doctrine announced in *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969) ("*Lear*") permits a patent licensee to challenge the validity of a licensed patent notwithstanding state law to the contrary that would operate to estop the licensee from making a validity challenge. Here, during a prior legal challenge to the validity of a patent, NTN agreed to dismiss its suit *without* prejudice, and become a licensee of the patent under a settlement agreement that specifically preserved to NTN the right to challenge the validity of the patent. [A3, A10] Nonetheless, the district court held that in this subsequently filed action, NTN was estopped from challenging the validity of the patent based on the dismissal of the prior action. [A7] The Federal Circuit affirmed that ruling. [C1-C4] This case, therefore, presents the critically important question of whether *Lear* preserves to a licensee the right to challenge a patent despite an arguable state-law estoppel arising from a dismissal of a prior validity challenge without prejudice.

Petitioner NTN and respondent Interactive Network, Inc. ("Interactive") are competitors in the business of developing, selling, and licensing interactive games. Interactive owns U.S. Patent No. 4,592,546 ('546),

which NTN contends is invalid and unenforceable due to inequitable conduct committed by the named inventors, David Lockton and Anthony Fascenda. Namely, Lockton and Fascenda, in connection with their patent application, signed declarations swearing that they were the inventors of the invention for which they were seeking a patent, while in fact, neither Lockton nor Fascenda was the true inventor. Rather, the true inventors were NTN's founders, Daniel and Patrick Downs.

In August 1986, NTN brought its first suit against the owners of the '546 patent seeking, *inter alia*, a declaration that the '546 patent was invalid. A few months later, in an effort to avoid costly litigation, the parties settled the case and NTN took a license which granted NTN the right to use the '546 patent in connection with two of its interactive games. [A3] In so doing, NTN specifically reserved the right to challenge the validity of the '546 patent. [A10] Thus, NTN took a license only after it was agreed that (1) the underlying litigation would be dismissed *without* prejudice, and (2) NTN retained the right in the future to challenge the validity of the '546 patent. [A3, A10]

In June 1992, following numerous disputes between the parties regarding the terms of the license agreement, NTN sued Interactive, again seeking a declaration of the invalidity of the '546 patent. Remarkably, NTN's challenge was thwarted by the district court, which granted Interactive's motion for summary judgment on the ground that the prior dismissal without prejudice in accordance with the parties' settlement agreement estopped NTN from challenging the validity of Interactive's patent. [A7]

The district court's ruling, which the Federal Circuit affirmed without opinion, is contrary to the decision of this Court in *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

In *Lear*, the Court abrogated the state law doctrine of "licensee estoppel," which had operated to prevent patent licensees from contesting the validity of a licensed patent. The Lear Court ruled that such estoppel was inconsistent with the strong federal patent policy that favors the ferreting out of invalid patents.

Although the Court's holding in *Lear* is powerful and far-reaching, the Federal Circuit in *Foster v. Hallco Mfg. Co.*, 947 F.2d 469 (Fed. Cir. 1991) interpreted *Lear* as containing an inherent limitation — namely, that *Lear* does not nullify the *res judicata* effect of a judgment of validity. Thus, the Federal Circuit determined that the Supreme Court in *Lear* did not intend to override the federal interest in "preserving the finality of a judgment." *Foster* at 476.

The *Foster* rationale for limiting *Lear*, however, does not apply to the case at bar because there is no appropriate basis here for an application of *res judicata*. As a matter of blackletter law, *res judicata* flows only from a final judgment entered by a court. Here, there was no final judgment. Rather, the parties entered into a private settlement agreement and, pursuant thereto, NTN voluntarily dismissed the underlying lawsuit *without prejudice*. [A3] Moreover, the settlement agreement expressly reserved NTN's right to challenge the validity of the '546 patent. [A10] Thus, the settlement agreement cannot create a *res judicata* bar to a challenge of the validity of the patent, and the policy of *Lear* favoring challenges to patents is controlling. The district court's decision was therefore erroneous, and should have been reversed by the Federal Circuit.

## REASONS FOR GRANTING THE WRIT

The Federal Circuit's decision warrants review by this Court for two reasons. First, the Federal Circuit's decision is fundamentally at odds with the policies announced in *Lear*. Second, the federal question at issue here — whether a dismissal without prejudice of a patent validity claim can operate as an estoppel against a future validity challenge — has not been squarely addressed by this Court.[2]

### I.

### THE FEDERAL CIRCUIT'S DECISION IS CONTRARY TO THE POLICIES ANNOUNCED BY THIS COURT IN *LEAR*

In *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), the Supreme Court officially abrogated "licensee estoppel," which had formerly operated to preclude patent licensees from challenging a licensed patent's validity. *Lear*, which is still controlling law, is based on the strong federal policy favoring the free flow of ideas not meriting patent protection. *Id.* at 668 ("federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent"). Thus, as the Lear Court stated in explaining why challenges are to be favored notwithstanding contract principles:

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[2] Review is particularly appropriate in light of the Federal Circuit's acknowledgement in *Foster* of the "substantial ground for a difference of opinion" on the easier question of whether even a proper application of *res judicata* principles could override *Lear*. *Foster* at 475.

> "Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain. Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification. We think it plain that the technical requirements of contract doctrine must give way before the demands of the public interest in the typical situation. . . ."

*Id.* at 670. *See also Foster v. Hallco Mfg. Co.*, 947 F.2d 469, 474 (Fed. Cir. 1991) ("broadly speaking, *Lear* expresses a policy in favor of precluding restrictions on attacks on patent validity"). Indeed, the Court recently reacknowledged the importance of resolving validity issues. *See Cardinal Chem. Co. v. Morton Int'l, Inc.*, 113 S. Ct. 1967, 1977 (1993) (explaining that the Court has "emphasized the importance to the public at large of resolving questions of patent validity").

Moreover, even an express contractual provision purporting to bar challenges to a patent's validity will not be enforced. As the author of the leading patent law treatise states in explaining *Lear*:

> "Under the doctrine of *Lear v. Adkins*, a party to a patent license or assignment is not precluded by estoppel *or express agreement* from

> contesting the validity of a patent as a defense to a charge of infringement or breach of contract. The public interest in ferreting out invalid patents overrides the general principles of contract law."

Donald S. Chisum, 5 *Patents* § 19.02[3] (Matthew Bender 1994) (emphasis added) ("Chisum"). Thus, pursuant to *Lear*, NTN would be permitted to challenge the validity of Interactive's patent even if the settlement agreement purported to prohibit such a challenge.

NTN's case, however, is even stronger because, to the contrary, the Agreement *expressly preserves* NTN's right to challenge the validity of the patent. [A10] By its very terms, this reservation permits NTN to assert the invalidity of the '546 patent under 35 U.S.C. section 102(f), and the other provisions of sections 101, 102, 103 and 112. [A10] Nevertheless, the Federal Circuit affirmed the district court's grant of summary judgment precluding NTN from challenging the '546 patent on any ground, contrary both to the holding of *Lear* and the terms of the settlement agreement.[3]

Notably, the one important limitation of *Lear* that has been imposed by the Federal Circuit — namely, that *Lear* does not override a proper application of *res judicata* principles — is inapplicable. *See Foster v.*

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[3] The federal interest in favor of encouraging validity challenges is even stronger where, as here, the challenge is based on fraud on the Patent Office. *Cf. Lear* at 669 ("[T]he simple contract approach ignores the position of the licensor who is seeking to invoke the court's assistance on his behalf. Consider, for example, the equities of the licensor who has obtained his patent through a fraud on the Patent Office. It is difficult to perceive why good faith requires that courts should permit him to recover royalties despite his licensee's attempts to show that the patent is invalid.").

*Hallco Mfg. Co.*, 947 F.2d 469 (Fed. Cir. 1991). In *Foster*, the district court ruled that the *res judicata* effect of a consent decree did not preclude the licensee-plaintiff from challenging the patent's validity and enforceability. The Federal Circuit reversed, noting that "general principles of *res judicata* apply, despite the policies favoring challenges to validity expressed in *Lear*." *Id.* at 475. In so holding, the Federal Circuit noted that "[t]he application of *res judicata* principles, thus, involves a public policy totally absent from *Lear*." *Id.* at 476.

The limitation on *Lear* recognized by the Federal Circuit in *Foster* does not apply to the case at bar because, under California law, as in every other jurisdiction, a dismissal without prejudice has no *res judicata* effect. *See Ashworth v. Memorial Hospital*, 254 Cal. Rptr. 104, 107 (1988) ("dismissals [] 'without prejudice' . . . have no res judicata or collateral estoppel effect"). Simply put, the preclusive effect of *res judicata* flows only from a judgment of the court. *Foster v. Hallco Mfg. Co.*, 947 F.2d 469, 476 (Fed. Cir. 1991) ("*res judicata* precludes the relitigation of a claim, or cause of action, or any possible defense to the cause of action *which is ended by a judgment of the court*") (emphasis added). A dismissal without prejudice under a private agreement not subjected to judicial scrutiny, by definition, has no *res judicata* effect. *See Ashworth* at 107.

Because a dismissal without prejudice pursuant to a settlement agreement has no *res judicata* effect, *Lear* operates to preclude any restrictions on NTN's right to challenge the validity of Interactive's patent.[4] Accord-

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[4] Indeed, commenting upon a situation virtually identical to the situation presented here, noted patent law expert Donald Chisum deems it "clear" that "a private agreement settling a threatened

(continued)

ingly, the district court's decision should have been reversed by the Federal Circuit, and this Court should grant NTN's petition for certiorari.

## II.

## THIS COURT SHOULD DECIDE THE IMPORTANT FEDERAL QUESTION OF WHETHER TO FURTHER RESTRICT PATENT VALIDITY CHALLENGES

This Court has yet to decide squarely whether the dismissal without prejudice of a validity challenge can override *Lear* and operate as an estoppel against a future validity challenge by a licensee. There are several reasons why this Court should decide this important question. First, restricting licensee challenges in this manner would have a significant impact on United States patent law, and would hamper competition throughout the economy. As the Court explained in *Lear*:

> "Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification."

---

(fn. continued)
infringement suit without involvement of a court creates no estoppel as to later conduct that is challenged as constituting infringement or breach of contract." 5 Chisum at § 19.02[3][c] (citing *Massillion-Cleveland-Akron Sign Co. v. Golden State Adv'g Co.*, 444 F.2d 425 (9th Cir.), *cert. denied*, 404 U.S. 873 (1971)).

*Id.* at 670. Given the important role licensees play in the ferreting out of invalid patents, this Court should review restrictions that are placed on licensee challenges.

Second, the application of *Lear* in the context of a license taken in the settlement of litigation has a profound effect on the interpretation and enforcement of existing patent license agreements. Licensees and licensors alike would benefit substantially from clarification as to the circumstances under which the law of the Supreme Court in *Lear* will apply to allow a challenge to the validity of a patent by a licensee.

Third, abrogating *Lear* in the context of a license taken in settlement of litigation would act as a deterrent to settlement. Treating private settlement agreements and final judgments in the same manner would rob licensees of their ability to settle litigation while preserving the ability in the future to assert a validity challenge. As a result, once a lawsuit challenging validity is filed, the challenger would have no choice but to continue to trial, since taking a license in settlement would preclude a later challenge. Abrogating *Lear* in this context would thus contravene, not further, the federal interest favoring settlements. This is entirely unnecessary because a mechanism is already in place — the consent decree resulting in a final judgment — by which settlements can be given preclusive effect.[5]

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[5] Indeed, the consent decree procedure is the generally invoked method of settlement. Mark Crane and Malcolm R. Pfunder, "Antitrust and Res Judicata Considerations in the Settlement of Patent Litigation," 62 *Antitrust L.J.* 151, 151 (1993) ("Patent infringement cases are generally settled by execution of license (or cross-license) agreements between the parties and entry of a consent decree by the court in which the case is pending.").

## CONCLUSION

Because NTN's prior validity challenge was dismissed without prejudice, it was constitutionally impermissible, pursuant to *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), for the Federal Circuit to affirm the district court's application of state law estoppel doctrines to bar NTN's renewed validity challenge. NTN therefore respectfully requests that its petition for a writ of certiorari be granted.

DATED: March 27, 1995.

Respectfully submitted,

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# APPENDIX A

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RICHARD W. WIEKING
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NORTHERN DISTRICT OF CALIFORNIA

ENTERED IN CIVIL DOCKET JUL 14, 1993

NTN COMMUNICATIONS, INC.,
Plaintiff,

v.

INTERACTIVE NETWORK, INC.,
Defendant.

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Case No. C-92-2211-DLJ

**ORDER**

On May 26, 1993, the Court heard arguments on defendant's motion for summary judgment and defendant's motion to file an amended counterclaim. D.W. Hunt of Troy and Gould and Lewis Anten appeared on behalf of plaintiff. Hans R. Troesch and Frank E. Scherkenbach of Fish & Richardson appeared on behalf of defendant. Having considered the arguments of counsel, the papers submitted, the applicable law, and the entire record herein, the Court hereby GRANTS defendant's motion for summary judgment and DEFERS ruling on defendant's motion to file an amended counterclaim.

# BACKGROUND

## I. Factual Background and Procedural History.

Plaintiff NTN Communications, Inc. (NTN) and defendant and counterclaimant Interactive Network Inc. (Interactive) are competitors in the business of developing, selling, and licensing "interactive games." Interactive is the successor in interest of U.S. patent no. 4,592,546 ('546) formerly held by Dataspeed, Inc. (Dataspeed), which David Lockton, Anthony Fascenda, and others formed in the late 1970s.

Interactive games allow remote participants of a live event like a football game to "play along," for example, by watching the game on television while manipulating a device to predict play selections and outcomes. The subject of this litigation is a game known as QB1. QB1 enables a home viewer to watch a live football game on television, predict how the game will unfold play by plan, and record and report the predictions for comparison with other viewers who participate in the same way from their homes. The game requires two-way interactive communication between the home user and a centralized control unit. QB1 was developed by two brothers, Patrick and Daniel Downs, the founders of NTN.

The Downs entered negotiations with Dataspeed to obtain the hardware on which their game could be played. After some preliminary discussions, a meeting was arranged for September 30, 1983 between the Downses and representatives of Dataspeed, including David Lockton, who is now the CEO of defendant Interactive Network, and Anthony Fascenda, who was the original Dataspeed founder and head of its research and development program. Before the Downses presented their ideas to Dataspeed, Dataspeed was required

to sign a written nondisclosure and confidentiality agreement. According to NTN, Dataspeed's reception to the Downses' idea was "lukewarm and the meeting was inconclusive." The Downses subsequently completed the development of QB1 and founded NTN.

Three years later, in June of 1986, the U.S. Patent Office issued the '546 patent for a "Game of Skill Playable By Remote Participants In Conjunction With A Live Event" to David Lockton and Anthony Fascenda.

NTN, believing that Lockton, Fascenda, and Dataspeed had misappropriated its trade secrets and breached the covenant of nondisclosure and confidentiality signed in 1983, filed suit against Lockton, Fascenda, and Dataspeed on August 26, 1987 seeking declaratory judgment that the '546 patent was either invalid or was not infringed by NTN's existing commercial activity and seeking damages for misappropriation of trade secret, breach of implied covenant of good faith and fair dealing, conversion, unfair competition, and breach of contract.

Several months later, in an effort to avoid costly litigation, the parties entered into a settlement agreement (the "1987 Settlement") in which NTN dismissed the case without prejudice. In addition, Lockton and Dataspeed granted NTN the right to use the '546 patent if it wished, and for as long as it wished, throughout the world and without royalties, in connection with both QB1 and another NTN game called Trivia.

Since 1986, several amendments have been made to the settlement agreement. An arbitration clause was added on June 1, 1990 in the "Amendment to Patent License Agreement" ("1990 Amendment"), *see* Pooley Decl., Exh. L, and a three-year royalty-bearing license was granted to Interactive for its use of additional games, including certain hockey games and baseball games as part of the 1990 Amendment. *Id.* Neverthe-

less, the parties continued to disagree over the terms and scope of the agreement. In June of 1992, NTN sued Interactive again seeking declaratory relief of the invalidity of the '546 patent or noninfringement of its commercial activities. Specifically, NTN seeks judicial declarations that:

- the patent is invalid under 35 U.S.C. §§ 102, 013, [*sic*] 112, and 116,
- a fraud was committed on the Patent Office at the time of the original patent application rendering the patent unenforceable,
- neither NTN's equipment, nor its games, nor its broadcast signals have infringed the patent,
- NTN can take QB1 directly to its customers' homes regardless of the patent's validity, and
- NTN's QB1, Trivia, baseball, and hockey games do not infringe the patent.

In addition, NTN amended its complaint to allege that the patent, which by now was owned by defendant Interactive, had been originally procured by fraud on the United States Patent Office because Lockton was not the true inventor and the patent was therefore unenforceable. On September 15, 1992, Interactive filed its First Amended Counterclaim alleging causes of action for patent infringement, declaratory relief, breach of contract, and defamation by NTN.

## II. Legal Standard.

Rule 56 governs motions for summary judgment. This rule states that summary judgment may be granted when "the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as

to any material fact and that the party is entitled to a judgment as a matter of law." Fed. R. Civ. P. 56(e).

In a motion for summary judgment, "[i]f the party moving for summary judgment meets its initial burden of identifying for the court those portions of the materials on file that it believes demonstrates the absence of any genuine issues of material fact," the burden of production then shifts so that "the nonmoving party must set forth, by affidavit or as otherwise provided in Rule 56, '*specific facts* showing that there is a genuine issue for trial.' " *T.W. Electric Service, Inc. v. Pacific Elec. Contractors Ass'n*, 809 F.2d 626, 630 (9th Cir. 1987) (citing *Celotex Corp. v. Catrett*, 106 S. Ct. 2548, 2553 (1983); *Kaiser Cement Corp. v. Fischbach & Moore, Inc.*, 793 F.2d 1100, 1103-04 (9th Cir.), *cert. denied*, 107 S. Ct. 435 (1986)) (emphasis in original).

To succeed on a summary judgment motion, defendant need only point to the insufficiency of the plaintiff's evidence to shift the burden to the plaintiff to raise genuine issues of fact as to each claim by substantial evidence. *T.W. Electric Service, Inc. v. Pacific Elec. Contractors Assoc.*, 809 F.2d 626, 630 (9th Cir. 1987) (citing *Celotex Corp. v. Catrett*, 106 S. Ct. 2548, 2553 (1983); *Kaiser Cement Corp. v. Fischbach & Moore, Inc.*, 793 F.2d 1100, 1103-04 (9th Cir.), *cert. denied*, 479 U.S. 949 (1986). If plaintiff fails to raise a genuine issues fact, then summary adjudication in favor of the defendant will be granted.

When judging the evidence at the summary judgment stage, the Court does not make credibility determinations or weigh conflicting evidence, and is required to draw all inferences in a light most favorable to the nonmoving party. *T.W. Electric*, 809 F.2d at 630-31 (citing *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 106 S. Ct. 1348, 1356 (1986)); *Ting v. United States*, 927 F.2d 1504, 1509 (9th Cir. 1991). Regardless of who is

the moving party, each party must "establish the existence of the elements essential to [its] case, and on which [it] will bear the burden of proof at trial." *Celotex Corp.*, 106 S. Ct. at 2552. The standard for judging a motion for summary judgment is the same standard used to judge a motion for a directed verdict: "whether the evidence presents a sufficient disagreement to require submission to a jury or whether it is so one-sided that one party must prevail as a matter of law." *Anderson v. Liberty Lobby, Inc.*, 106 S. Ct. 2505, 2512 (1986).

In meeting their burdens of proof, each party must come forward with admissable evidence. Fed. R. Civ. P. 56(e). Conclusory, speculative testimony in affidavits and moving papers is insufficient to raise genuine issues of fact and defeat summary judgment. *See Falls Riverway Realty, Inc. v. Niagara Falls*, 754 F.2d 49 (2d Cir. 1985); *Thornhill Publishing Co. v. GTE Corp.*, 594 F.2d 730, 738 (9th Cir. 1979). Hearsay statements found in affidavits are inadmissable. *See, e.g., Fong v. American Airlines, Inc.*, 626 F.2d 759, 762-63 (9th Cir. 1980). Plaintiffs must ultimately persuade the Court in opposing summary judgment that they will have sufficient admissable [*sic*] evidence to justify going to trial.

## DISCUSSION

### I. Interactive's Motion for Summary Judgment.

Interactive moves the Court for summary judgment reasoning that NTN is barred by the 1987 Settlement Agreement from raising claims of validity, infringement and enforceability in its 1992 complaint. Under California law, a settlement agreement is res judicata as to claims which were or could have been raised in the initial action. 7 Witkin, Cal. Procedure (3d ed. 1985) Judgment, § 188, at 621 ("The doctrine of res judicata

gives certain conclusive effect to a former judgment in subsequent litigation involving the same controversy."); *Nakash v. Superior Court of Los Angeles County*, 196 Cal.App.3d 59, 67 (1987) ("We have already indicated that the "former judgment" may be a dismissal with prejudice arrived at by way of settlement by the litigants in the first action."). Thus, to the extent that the causes of action raised in the present suit are not expressly reserved in the 1987 Settlement Agreement, they are barred by res judicata.

In particular, Interactive contends that certain recitals in the Agreement bar NTN from raising its claims. The relevant recitals read:

> 1. The invention claimed in United States Patent No. 4,592,546 (the "Patent") were conceived of, developed, and reduced to practice independently of the efforts of NTN or of its employees and without use of proprietary information belonging to NTN.
>
> * * *
>
> 3. The NTN product known as QB1 infringes the Patent. Pooley Decl., Exh. J. In addition paragraph 1 of the Agreement governs NTN's waiver of its claims against Interactive. The relevant part of the Agreement reads:
>
> > IGP *[a predecessor to Interactive] and Lockton*, on the one hand, *and NTN, P. Downs and D. Downs*, on the other hand, and their predecessors (including Dataspeed, Inc.), successors and assigns, *release and forever discharge each other*, their predecessors, assigns, partners, principals,

> shareholders, successors, subsidiaries, affiliates or other related entities, officers, directors, employees, or agents, and each of them, *from any claims*, demands, actions or causes of action *whatsoever, whether or not now known, suspected or claimed*, which either party may have or claim to have, whether as principal or agent or otherwise, against the other, or any of them, *from the beginning of time to the date of the Settlement Agreement And Covenant Not To Sue; except that D. Downs, P. Downs and NTN retain their right to challenge the validity of the Patent under 35 U.S.C. §§ 101, 102, 103, and 112, as well as any claim of infringement of the patent by "Other Games," as that term is defined in the Patent License Agreement executed concurrently herewith, and except that IGP reserves its prospective claims of infringement.*

Pooley Decl., Exh. J., at 1-2 (emphasis added).

The Court holds that in light of the 1987 Settlement Agreement between the parties, there are no genuine issues of material fact in dispute regarding NTN's claims of patent unenforceability, invalidity, and noninfringement.

First, on the claim of unenforceability due to inequitable conduct by the patent applicants, NTN alleges that David Lockton committed fraud on the Patent Office when he signed a declaration stating that he was an inventor even though he was not "an original, first and joint inventor" of the patent. Thus, NTN's claimed deception is the misrepresentation to the Patent Office of

non-inventor as an inventor in the patent application. NTN does not and cannot contend that it should be named as a joint inventor in the application. In recital 1 of the Settlement Agreement, NTN concedes that "[t]he invention claimed . . . [was] conceived of, developed, and reduced to practice independently of the efforts of NTN or of its employees and without use of proprietary information belonging to NTN." It is therefore expressly barred from making such a contention. In addition, NTN does not claim that a third party is a joint inventor of the patent and was improperly omitted from the application.

For a misrepresentation or omission to constitute fraud on the Patent Office or inequitable conduct, it must be "material." *Corona Cord Tire Co. v. Dovan Chemical Corp.*, 276 U.S. 358, 374 (1928). To be material, the misrepresentation or omission must have affected the patent examiner in his issuance of the patent. *See generally* Chisum, Patents, § 19.03[3], at 19-159 - 19-161. In this case, any misrepresentation on the part of Lockton would not have affected the examiner's decision and is therefore not material. The naming of an incorrect joint inventor does not invalidate a patent, but rather is addressed by amendment of the patent application to delete the incorrect inventor. As 35 U.S.C. § 116 states:

> Whenever through error a person is name in an application for patent as the inventor, . . . and such error arose without any deceptive intention on his part, ***the Commissioner may permit the application to be amended accordingly, under such terms as he prescribes.***

Second, with respect to NTN's claim of patent invalidity under §§ 102, 103, 112, and 116, the Court finds

that NTN has failed to bring forth sufficient evidence to establish genuine issues of material facts in dispute. NTN does not argue, and there is no specific evidence supporting a claim of, lack of novelty, obviousness, or failure to set forth the best mode of the invention. The only invalidity claim for which NTN proffers evidence is its claim under § 116 for incorrect inventorship. The § 116 claim standing alone, however, cannot withstand summary judgment because, as defendant correctly argues, it is barred under the express terms of the Settlement Agreement. In paragraph 1 of the Agreement, both parties waive any and all claims they may have in connection with the '546 patent, except those arising under 35 U.S.C. § 101, 102, 103, and 112. Because § 116 is not explicitly reserved in the Settlement Agreement, NTN cannot now bring an independent claim based on § 116.

NTN argues, however, that its § 116 claim is not an independent cause of action, but rather is "entirely procedural in nature," and has a "jurisdictional basis" in § 102(f) of the patent laws, which states that "a person shall be entitled to a patent unless . . . he did not himself invent the subject matter sought to be patented." As explained above, however, NTN is barred from alleging that it should be named as an inventor and does not claim that a third party should be added as an inventor. Absent such a contention, a claim of invalidity based on inventorship fails.

Finally, with respect to NTN's claim of noninfringement, the Court finds that NTN is expressly barred from seeking declaratory judgment on noninfringement because NTN and Interactive entered into a license agreement in which NTN received the right to use the '546 patent in connection with QB1 and Trivia. In addition, NTN conceded in the Agreement that "[t]he NTN product known as QB1 infringes the Patent."

In light of the foregoing analysis, the Court finds that there are no genuine issues of material fact in dispute and accordingly GRANTS defendant's motion for summary judgment.

## II. Interactive's Motion for Leave to File Amended Counterclaim.

Interactive also moves the Court for leave to file a Second Amended Counterclaim against NTN. Interactive seeks to add causes of action for unfair competition in violation of the Lanham Act and for intentional interference with prospective economic advantage. Interactive bases these claims on its recent discoveries that

> NTN has on numerous occasions disparaged Interactive and the patent in the press and to potential investors. Specifically, NTN has represented to members of the press, to investment bankers, to potential stock purchaser, and to potential customers that NTN does not need a license from Interactive to play its games, that in fact Interactive needs a license from NTN, that only NTN can play National Football League (NFL) games, and that Interactive in essence stole its patent from NTN.

Interactive's Motion for Leave to File Amended Counterclaim Brief, at 2.

The Court DEFERS ruling on defendant's motion to file an amended counterclaim. This issue will be addressed at the next status conference.

## CONCLUSION

For the foregoing reasons, the Court ORDERS as follows:

1. Defendant's motion for summary judgment is GRANTED.

Defendant is to file a proposed form of judgment within 20 days of the date of this Order. Defendant will provide a copy of the proposed judgment to plaintiff and plaintiff may comment on the proposed judgment within 10 days of its receipt.

2. Defendant's motion to file an amended counterclaim is DEFERRED.

3. The parties shall be available for a status conference on Wednesday, September 1, 1993 at 8:30 a.m.

IT IS SO ORDERED.

Dated: July 7, 1993.

/s/ D. Lowell Jensen
D. Lowell Jensen
United States District Judge

# APPENDIX B

FILED
AUG 13 1993
RICHARD W. WIEKING
CLERK, U.S. DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

ENTERED IN CIVIL DOCKET AUG 16, 1993

NTN COMMUNICATIONS, INC.,
Plaintiff,
v.
INTERACTIVE NETWORK, INC.,
Defendant.

---

Case No. C-92-2211-DLJ

**JUDGMENT**

Pursuant to the Court's Orders of July 7, 1993 and August 13, 1993 granting defendant's motion for summary judgment, the Court hereby enter PARTIAL JUDGMENT in favor of defendant and against plaintiff. The First Amended Complaint of NTN is hereby DISMISSED with respect to all claims except plaintiff's claims of noninfringement of all games other than QB-1 and TRIVIA.

IT IS SO ADJUDGED.

Dated: August 13, 1993.

/s/ D. Lowell Jensen
D. Lowell Jensen
United States District Judge

FILED
JAN 26 1994
RICHARD W. WIEKING, CLERK

ENTERED IN CIVIL DOCKET JAN 31, 1994

NTN COMMUNICATIONS, INC.,
Plaintiff,
v.
INTERACTIVE NETWORK, INC.,
Defendant.

---

Case No. C-92-2211-DLJ

**JUDGMENT**

The Court entered partial judgment in favor of defendant on August 16, 1993, following this Court's Orders of July 7, 1993 and August 13, 1993, which granted defendant's motion for summary judgment. Pursuant to a December 6, 1993 Order dismissing plaintiff's remaining claim for non-infringment, and pursuant to a stipulated dismissal of remaining counterclaims filed with the Court on January 26, 1994, the Court hereby enters FINAL JUDGMENT in favor of defendant and against plaintiff in the above-captioned matter.

IT IS SO ADJUDGED.

Dated: January 26, 1994.

/s/ D. Lowell Jensen
D. Lowell Jensen
United States District Judge

# APPENDIX C

# UNITED STATES COURT OF APPEALS
# FOR THE FEDERAL CIRCUIT

## NOTICE OF ENTRY OF
## JUDGMENT WITHOUT OPINION

JUDGMENT ENTERED: November 17, 1994

The judgment of the court in your case was entered today pursuant to Rule 36. This Court affirmed the judgment or decision that was appealed. None of the relief sought in the appeal was granted. No opinion accompanied the judgment. The mandate will be issued in due course.

Information is also provided about petition for rehearing and suggestions for rehearing in banc. The questions and answers are those frequently asked and answered by the Clerk's Office.

Costs are taxed against the Appellant(s) in favor of the Appellee(s) under Rule 39. The party entitled to costs is provided a bill of costs form and an instruction sheet with this notice.

The parties are encouraged to stipulate to the costs. A bill of costs will be presumed correct in the absence of a timely filed objection.

Costs are payable to the party awarded its costs. If costs are awarded to the government, they should be paid to the Treasurer of the United States. Payment should be made to counsel for the party awarded costs or, if the party is not represented by counsel, to the party pro se. Payment of costs should not be sent to the court. Costs should be paid promptly.

Exhibits and visual aids shall be promptly retrieved by the party that lodged them with this court.

FRANCIS X. GINDHART
Clerk

cc: Morgan Chu
James H.A. Pooley

NTN COMMUNICATIONS V INTERACTIVE, 94-1211
(DCT ND/CA - C-92-2211)

NOTE: Pursuant to Fed. Cir. R. 47.6, this disposition is not citable as precedent. It is a public record. The disposition will appear in tables published periodically.

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

94-1211

NTN COMMUNICATIONS, INC.,
Plaintiff-Appellant,
v.
INTERACTIVE NETWORK, INC.,
Defendant-Appellee.

***JUDGMENT***

*ON APPEAL from the* United States District Court for the Northern District of California

*in CASE NO(S).* C-92-2211

*This CAUSE having been heard and considered, it is*

*ORDERED and ADJUDGED:*

AFFIRMED. *See* Fed. Cir. R. 36.

Per Curiam (NEWMAN, PLAGER, and CLEVENGER, Circuit Judges).

*ENTERED BY ORDER OF THE COURT*

*DATED* NOV 17 1994

/s/ Francis X. Gindhart
Francis X. Gindhart, Clerk

**FILED**
U.S. COURT OF APPEALS FOR
THE FEDERAL CIRCUIT
NOV 17 1994
FRANCIS X. GINDHART
CLERK

# APPENDIX D

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

94-1211

NTN COMMUNICATIONS, INC.,
Plaintiff-Appellant,
v.
INTERACTIVE NETWORK, INC.,
Defendant-Appellee.

**ORDER**

A combined petition for rehearing and suggestion for rehearing in banc having been filed by the APPELLANT, and the petition for rehearing having been referred to the panel that heard the appeal, and thereafter the suggestion for rehearing in banc having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the suggestion for rehearing in banc be, and the same hereby is, DECLINED.

The mandate of the court will issue on January 4, 1995.

FOR THE COURT,
FRANCIS X. GINDHART, CLERK

Dated: December 28, 1994

By Diane M. Frye
Diane M. Frye
Chief Deputy Clerk

cc: Morgan Chu
James H.A. Pooley

**FILED**
U.S. COURT OF APPEALS FOR
THE FEDERAL CIRCUIT
DEC 28 1994
FRANCIS X. GINDHART
CLERK

NTN COMMUNICATIONS V. INTERACTIVE 94-1211
(DCT - C-92-2211)

* * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * *
* Note: Pursuant to Fed. Cir. R. 47.6, this order is not *
* citable as precedent. It is a public record. *
* * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * *

Supreme Court, U.S.
FILED
APR 27 1995
OFFICE OF THE CLERK

No. 94-1608

In The

# Supreme Court of the United States

October Term, 1994

NTN COMMUNICATIONS, INC.,

*Petitioner,*

v.

INTERACTIVE NETWORK, INC.,

*Respondent.*

**On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit**

## BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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## QUESTION PRESENTED

Whether this Court should make new law to allow an accused infringer a second opportunity to challenge the validity of a patent, on grounds expressly contradicting admissions of evidentiary fact made in settlement of prior litigation challenging the patent.

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No. 94-1608

In The

# Supreme Court of the United States

October Term, 1994

NTN COMMUNICATIONS, INC.,

*Petitioner,*

v.

INTERACTIVE NETWORK, INC.,

*Respondent.*

**On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit**

## BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

Respondent Interactive Network, Inc. ("Interactive")[1] respectfully opposes Petitioner NTN Communications, Inc.'s ("NTN") petition for a writ of certiorari to review the decision of the United States Court of Appeals for the Federal Circuit in this case.

[1] Pursuant to Rule 29 of this Court, Interactive states that it has no parent company or subsidiaries (other than wholly-owned subsidiaries).

## STATEMENT OF THE CASE

NTN's statement of the question presented and of the case are both misleading because they represent that NTN was somehow estopped from challenging the validity of the patent in suit. For example, NTN claims this case presents the question "whether it is constitutionally permissible, pursuant to *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), for state law estoppel doctrines to bar a licensee's renewed validity challenge to the licensed patent, where the estoppel is based on the licensee having dismissed its prior validity challenge without prejudice." [NTN Petition for Certiorari ("Petition") at i] NTN's "Statement" of the case continues the theme; the focus of the Statement, and indeed of the entire Petition, is NTN's charge that the district court estopped NTN from challenging the validity of the patent. [Petition at 3, 4, 8] However, a simple review of the district court opinion [A1-12] will show that this charge is wrong and that this case does not present the question NTN poses.

The district court acknowledged that NTN *could* challenge the validity of the licensed patent on a host of grounds, including sections 102, 103 and 112 of the Patent Act (Title 35 of the United States Code). [A9-10] However, the court also observed that NTN could not prove invalidity by disregarding a binding recital of evidentiary fact in an agreement settling prior litigation brought by NTN against the patent. The recital is a key fact in this case, but one which the Petition entirely ignores.

In particular, the heart of NTN's invalidity challenge was its claim that the patent named incorrect inventors and therefore was invalid under section 102(f) of the

Patent Act. [A10] The only evidence NTN offered in support of this claim was the allegation that NTN itself, not the individuals named on the patent, was the true inventor [A10]. Unfortunately for NTN, that allegation squarely contradicted the following recital contained in the settlement agreement:

> 1. The inventions claimed in United States Patent No. 4,592,546 (the "Patent") were conceived of, developed, and reduced to practice independently of the efforts of NTN or of its employees and without use of proprietary information belonging to NTN.

[A7]

As for NTN's validity challenges under the remaining statutory sections, the court determined that

> with respect to NTN's claim of patent invalidity under §§ 102, 103, 112, and 116, the Court finds NTN has failed to bring forth sufficient evidence to establish genuine issues of material facts in dispute. NTN does not argue, and there is no specific evidence supporting a claim of, lack of novelty, obviousness, or failure to set forth the best mode of the invention.

[A9-10]

In short, NTN's section 102(f) challenge was foreclosed by facts NTN had conceded in settlement of prior litigation, while its remaining validity challenges failed for lack of evidence. NTN made its validity challenges, but lost.

## SUMMARY OF ARGUMENT

The petition should be denied because this case does not present any questions of constitutional proportion, including the question posited by NTN: whether *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), should be interpreted to allow a licensee to challenge the validity of a licensed patent, notwithstanding the settlement and dismissal of prior litigation by the licensee raising the same validity challenge. Since NTN was allowed to and did challenge the validity of the patent, *Lear* does not apply. NTN lost, not because it could not make the claims it wanted, but because it had no admissible evidence to support them. In particular, NTN's primary validity challenge contradicted a binding recital of evidentiary fact in a prior settlement agreement – a situation *Lear* did not address and therefore does not control. NTN's statement of the question presented and its Petition simply misapprehend the basis on which Interactive moved for summary judgment, the district court granted summary judgment, and the Federal Circuit summarily affirmed.

Since *Lear* is irrelevant to this case, the judgment of the Federal Circuit summarily affirming the judgment of the district court is not contrary to *Lear*. For the same reason, this case does not present any important federal question of whether further to restrict patent validity challenges. It is clear enough from *Lear* and from a Federal Circuit decision that NTN declines to cite, *Hemstreet v. Spiegel, Inc.*, 851 F.2d 348 (Fed. Cir. 1988), that *Lear* is not a carte blanche escape from settlement agreements that licensees think better of when circumstances change.

Resolution of this case depends on the interpretation of the specific settlement agreement at issue in the context of the relationship between these particular parties, not on any legal questions of broader importance or constitutional moment.

## ARGUMENT

### I

### THE JUDGMENT OF THE FEDERAL CIRCUIT SUMMARILY AFFIRMING THE JUDGMENT OF THE DISTRICT COURT IS NOT CONTRARY TO *LEAR*.

As noted above, *Lear* has no application here because NTN was allowed to and did challenge the validity of the patent. Therefore, the district court judgment under attack and the Federal Circuit judgment affirming it are not "contrary to the policies announced by this Court in *Lear*". [Petition at 6]

Equally fundamental, NTN could not prove its primary invalidity claim based on section 102(f) because the claim is doomed by the factual recital quoted above – which *Lear* can do nothing about. *Lear* does not change the facts. It merely preserves for licensees the right to challenge the validity of a licensed patent in a suit for royalties by the licensor, traditional equitable and contractual impediments notwithstanding. 395 U.S. at 672-74.

As Interactive pointed out below, California conclusively presumes the facts recited in a written instrument to be true as between the parties. Cal. Evid. Code § 622; *Estate of Wilson*, 64 Cal. App. 3d 786, 800, 134 Cal.

Rptr. 749, 757 (1976). *Lear* did not consider or presume to displace a state policy of giving binding effect to recitals of evidentiary *facts* in written agreements, particularly settlement agreements entered with full knowledge of the facts relevant to the recital. The recital therefore is binding and precludes NTN from proving its inventorship defense by claiming, as it did, that the named inventors derived the patented inventions from NTN.

Finally, the Federal Circuit decision in this case is not contrary to *Lear* because even if NTN had been precluded from challenging validity – which it was not – the policies underlying *Lear* do not require or suggest that a court disregard agreements made in settlement of, and disposing of issues raised in, prior litigation. In affirming a district court's refusal to grant relief from a settlement agreement that required royalty payments regardless of the validity of the licensed patents, the Federal Circuit observed in *Hemstreet v. Spiegel, Inc.*, 851 F.2d 348, 350 (Fed. Cir. 1988):

> *Lear*, however, did not involve a settlement of litigation, but only the right of a patent licensee to challenge the validity of the licensed patent. The enforcement of settlement of litigation involves another public policy totally absent in *Lear*: the encouragement of settlement of litigation and the need to enforce such settlements in order to encourage the parties to enter into them.

Thus, even if NTN had been precluded from challenging validity because of the settlement agreement, the policies underlying *Lear* would not be offended. It is thus irrelevant to observe, as NTN does, that the formal dismissal

of NTN's prior litigation challenging the validity of the patent was "without prejudice".

## II

## THIS CASE DOES NOT PRESENT, AND THERE IS NO NEED FOR THIS COURT TO DECIDE, ANY "IMPORTANT FEDERAL QUESTION OF WHETHER TO FURTHER RESTRICT PATENT VALIDITY CHALLENGES".

This Court should not and indeed cannot decide "whether the dismissal without prejudice of a validity challenge can override *Lear* and operate as an estoppel against a future validity challenge by a licensee" [Petition at 10] because, as noted above, that question is not presented in this case. However, even if it were, the Court need not and should not consider it.

With the possible exception of NTN, no one needs "clarification as to the circumstances under which the law of the Supreme Court in *Lear* will apply to allow a challenge to the validity of a patent by a licensee." [Petition at 11] To Interactive's knowledge, no case has extended *Lear* to disregard recitals of evidentiary facts and *Hemstreet* makes clear that principles of repose and the encouragement of settlements preclude extension of *Lear* to cases like this one involving the settlement of prior litigation.

In addition, NTN's fear that the result in this case "would act as a deterrent to settlement" [Petition at 11] is misplaced, at best, because it is based on the fundamental misunderstanding that the district court in this case precluded NTN from challenging the validity of the patent. The opposite is true. Far from deterring settlement, the law as interpreted and applied by the district court and

the Federal Circuit in this case *allows* a litigant like NTN to preserve some and dispose of other validity challenges as it wishes, by including appropriate language in either a settlement agreement or a consent judgment. This encourages settlement, because it allows the litigants to go about their business without resolving on the merits every validity defense raised in litigation. Adopting the rule that NTN wants would have the opposite effect. It would guarantee that no sensible patentee would ever settle patent litigation, because the promises and representations made to induce the settlement later could be disregarded at whim.

## III

## RESOLUTION OF THIS CASE DEPENDS ON THE INTERPRETATION OF THE SPECIFIC SETTLEMENT AGREEMENT AT ISSUE IN THE CONTEXT OF THE RELATIONSHIP BETWEEN THESE PARTIES, NOT ON ANY LEGAL QUESTIONS OF BROADER IMPORTANCE OR CONSTITUTIONAL MOMENT.

Since resolution of this case turned on a specific factual recital in a specific settlement agreement between these particular parties, this case does not raise constitutional issues or important federal questions; nor does it turn even on typical patent license provisions that might have some broader interest or applicability. It depends on the peculiar facts. Interactive is unaware of another invalidity challenge premised on derivation of the invention from the challenger, which failed because the challenger itself had earlier conceded that it was not the source of the patented inventions. Accordingly, this Court

should decline NTN's invitation to extract NTN from its present, deserved predicament.

## CONCLUSION

Because NTN could and did challenge the validity of the patent in suit, because NTN's primary invalidity challenge contradicted a prior factual recital, and because NTN made that recital in settlement of prior litigation, *Lear* properly played no role in the consideration or disposition of this case. In addition, this case presents no federal questions of broader importance but turns instead on its own peculiar facts. For all of these reasons, this Court should deny NTN's petition for a writ of certiorari.

DATED: April 27, 1995

Respectfully submitted,

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